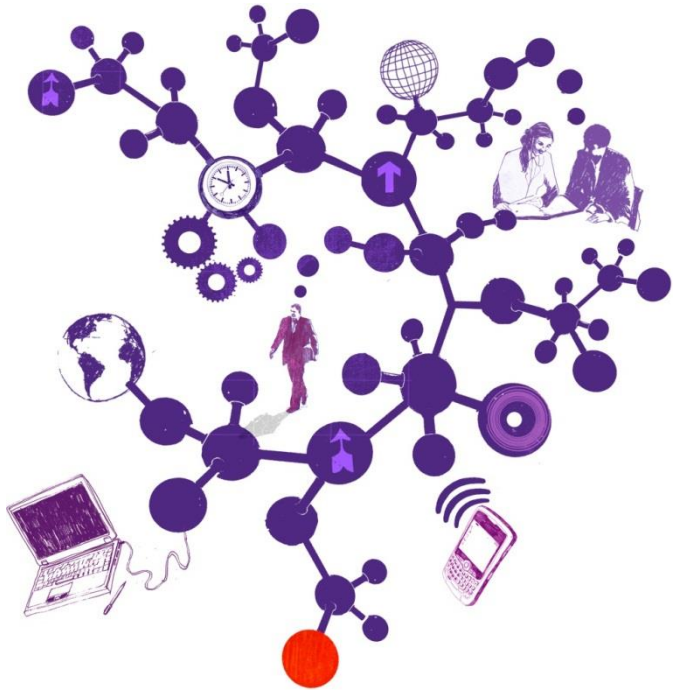
The Audit Plan for Solihull Metropolitan Borough Council

Year ended 31 March 2015

9 March 2015



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Alternative Delivery Models

- Partnership working with other bodies and the voluntary sector.

2. Procurement and Commissioning

- Delivering efficiency savings through improved procurement.
- Moving from the provision to the commissioning of services.

3. LG Finance Settlement

- The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015-16.
- At the same time local authorities are facing increasing demands for school places and adult social care services.

4. Collaborative working with the NHS

- Development of new working arrangements to deliver the Better Care Fund.
- NHS emergency care overload and the re-emergence of bed-blocking linked to adult social care capacity.

5. Financial Reporting including Whole of Government Accounts

- Changes to the CIPFA Code of Practice .
- Whole of Government Accounts (WGA) requirements still to be finalised for 2014/15.

Our response

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate and assessing the Council's arrangements for challenging how it secures economy, efficiency and effectiveness.

- We will review the progress you have made in delivering your efficiency savings in this area as part of our work on your arrangements for financial resilience.

- We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- Council staff have been invited to our technical update workshops covering key developments in the year. We will engage with Officers as early as possible to highlight and resolve emerging issues.
- We will carry out our audit of the WGA in accordance with requirements.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements					
1.Financial reporting • Changes to the CIPFA Code of Practice. • Changes to the recognition of school land and buildings on local authority balance sheets. • Adoption of new group accounting standards (IFRS 10,11 and 12).	**2. Legislation** • Local Government Finance settlement.	**3. Corporate governance** • Annual Governance Statement (AGS). • Explanatory foreword.	**4. Better Care Fund** • Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015.	**5. Financial Pressures** • Managing service provision with less resource. • Progress against savings plans.	**6. Other requirements** • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion. • The Council completes grant claims and returns on which audit certification is required.
Our response					
We will check that • the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing. • schools are accounted for correctly and in line with the latest guidance. • the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly.	• We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate.	• We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.	• We will consider whether the BCF is a risk in the context of our VfM conclusion and will carry out further work if required.	• We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan. • We will undertake a review of Financial Resilience as part of our VfM conclusion.	• We will carry out work on the WGA pack in accordance with requirements. • We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

Working with you

2013/14 was our second year as your external auditors. We have previously reported positively on the outcome of our work. During our audit we worked with officers in a number of areas to pre-empt problems arising:

- Property, Plant & Equipment valuations;
- Business rates appeals;
- Valuation of Coventry & Solihull Waste Disposal Company;
- Valuation of Blythe Valley Innovation Centre;
- Changes to the Service Reporting Code of Practice for Local Authorities (SeRCOP) – new Public Health line; and
- Accounting for and financing the local government pension scheme costs.

In addition:

- Officers attended a training event on the 2013/14 accounts in our Birmingham office;
- Officers attended a legal risk seminar in our Birmingham office;
- We provided training for Officers on our Housing Benefit claim certification work;
- We met with senior Officers to discuss opportunities around the treatment of VAT;
- We certified an European Regional Development Fund (ERDF) grant claim as additional work outside the Audit Commission regime; and
- We certified a Teachers' Pension Claim as additional work outside the Audit Commission regime.

In 2014/15 we are continuing to engage with officers at the earliest opportunity and have already discussed a number of issues:

- Accounting for the early payment of the pension fund deficit;
- Accounting for local authority schools;
- Provided an opinion on the proposed changes to the Minimum Revenue Provision; and
- De-cluttering and further enhancing the annual accounts.

In addition:

- Officers have been invited to attend a training event on the 2014/15 accounts in our Birmingham office;
- Officers attended a data analytics seminar in our Birmingham office. We have subsequently discussed with officers how this area of our business could support the ongoing work you are doing on HS2;
- We will again certify the ERDF and Teachers' Pensions claims as additional work outside the Audit Commission regime; and
- We are discussing with officers holding a national seminar and developing a national report on what freedoms should be granted to authorities that become 'self financing'.

While we recognise that Solihull MBC is a well run Council, and we have reported very few issues in the last few years, auditing standards require us to maintain professional scepticism. The standards also require us to identify and highlight to you those areas where we believe there is the greatest scope for misstatement. The next few slides address these requirements.

Our audit approach

Global audit technology

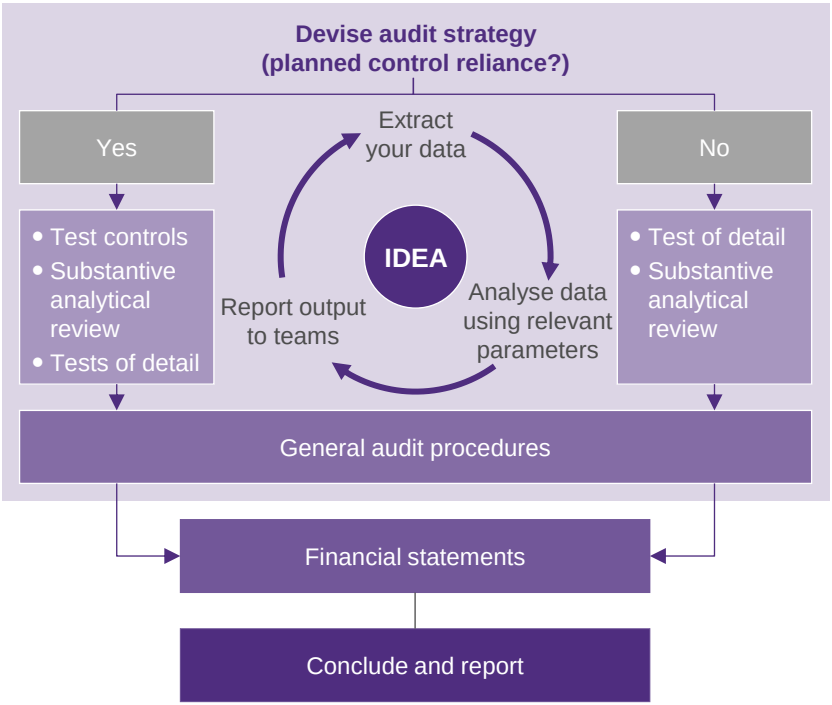
Ensures compliance with International Standards on Auditing (ISAs)

- Understanding the environment and the entity
- Understanding the business
- Understanding management's focus
- Evaluating the year's results

→ Inherent risks, Significant risks, Other risks, Material balances →

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material[a] respects with the CIPFA Code of Practice framework using our global methodology and audit software

Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



Voyager

Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Solihull MBC, we have determined that the risk of material fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • there is regular financial monitoring and reporting • there are financial control systems in place including internal audit • the culture and ethical frameworks of local authorities, including Solihull MBC, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	**Further work planned:** • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Work completed at interim	Further work planned at the final audit
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	• We have updated our understanding and discussed the cycle with relevant personnel from the finance team and the Order, Processing & Payments team during the interim audit. • We performed walkthrough tests of the controls identified in the cycle.	• Substantive testing of balances will be performed on transactions to cover the year. • Cut off testing will be performed on pre and post year end transactions.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	• We have updated our understanding and discussed the cycle with relevant personnel in Payroll during the interim audit. • We performed walkthrough tests of the controls identified in the cycle. • Substantive testing of balances and individual employee transactions up to the date of the interim audit.	• Substantive testing of year end balances and individual employee transactions, made since the interim visit and our return at the final audit.
Welfare Expenditure	Welfare benefit expenditure improperly computed	• We have updated our understanding and discussed the cycle with relevant personnel in the Income and Awards team during the interim audit. • We performed walkthrough tests of the controls identified in the cycle.	• Substantive testing is performed via the HBCOUNT work which provides assurances over the balances in the financial statements. • Review of key reconciliations that are performed between the Revenue and Benefits systems and the ledger.

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Solihull Community Housing	Yes	Targeted	Recorded transactions not valid	• Substantive testing of Council transactions • Review the Council's consolidation workings to ensure that they correctly derive from the component accounts.
Coventry & Solihull Waste Disposal Company	Yes	Targeted	Investments carrying value	• Review valuation of the Company obtained by the Council • Review the Council's consolidation workings to ensure that they correctly derive from the component accounts
Blythe Valley Innovation Centre	No	Analytical	Investments carrying value	• Review the Council's consolidation workings to ensure that they correctly derive from the component accounts

Targeted – the group audit team identified one or more potential risks of material misstatement and has determined that audit procedures at the component level are needed to respond to the risk(s). The group audit team selects this approach whenever sufficient appropriate audit evidence for the audit of the group can be obtained by performing audit procedures that respond to the identified risk(s). Audit procedures being targeted by auditing either an account balance, class of transactions or disclosures.
Analytical – is applied to components that are not individually significant. The group audit team selects this approach when the component is not significant and the risks can be addressed sufficiently by applying analytical procedures at the group level.

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Undertake a detailed risk assessment which will support our overall conclusion.
- Undertake a financial resilience review.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

We will agree any additional reporting to the Council on a review-by-review basis.

Results of interim audit work

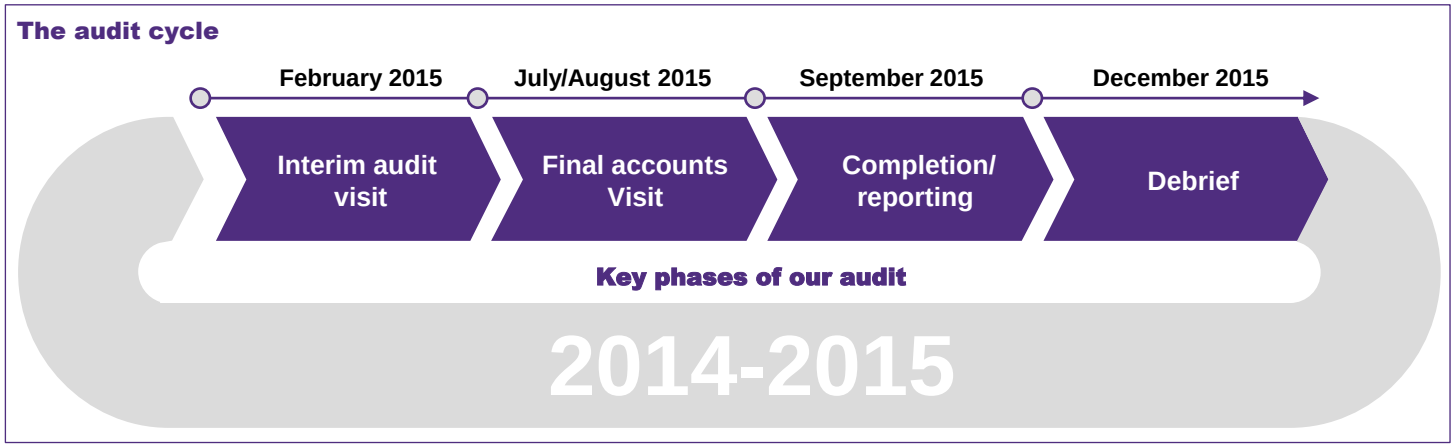
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	We have reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	Our information systems specialist performed a detailed review of the IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.	We are awaiting the report from our IT specialists, and will then consider any impact on the Council's financial statements.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	The control environment for journal postings was found to be sufficiently sound to not adversely impact our planned approach or raise additional material risks for the financial statements. We identified that not all journals are required to be reviewed and approved, as only those journals over £0.250m are required to be approved by budget holders. We have determined our journal testing approach and will undertake detailed testing on journal transactions for the year, by extracting 'unusual' entries for further review during our final audit.
Early substantive testing	We have undertaken substantive testing to confirm the Council's rights & obligations to, and the physical existence of all significant property, plant & equipment (PPE) on the opening position.	We will revisit the early PPE rights & obligations and existence testing at the final closing position to ensure that all significant PPE at the 31 March 2015 has been verified.
Value for money	We have undertaken an initial risk assessment to identify areas of risk to our Value for Money conclusion.	We will complete work to address the risks identified, during our final audit and this will include the areas set out in our Value for Money section at page 11 above.

Key dates



Date	Activity
February 2015	Planning
February 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
July/August 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with Director of Resources
September 2015	Report audit findings to those charged with governance (Audit Committee/Governance Committee)
September 2015	Sign financial statements opinion

Our Team

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Fees and independence

Fees

	£
Council audit	*178,050
Grant certification – indicative fee	13,530
Total fees (excluding VAT)	**191,580**

* A supplementary fee of £1,470 has been added to the 2014/15 main audit fee for audit work on business rates and thus the amount differs from that approved in our fee letter.

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Fees for other services

Service	Fees £
ERDF Grant	3,000
Teachers Pensions	4,200

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- One of our audit team has a long-standing friendship with an officer in your economic development team. We will ensure that this auditor does not undertake any audit work involving economic development.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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